

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 2574 – SB 2565

March 21, 2016

SUMMARY OF ORIGINAL BILL: Deletes Tenn. Code Ann. § 49-3-366 which contains an obsolete reference to the Basic Education Program (BEP) funding formula.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENTS (011771, 014668): Deletes all language of the original bill. Makes multiple changes to the Basic Education Program (BEP) funding formula beginning in FY16-17 including but not limited to the following:

- Requires the BEP appropriations made to local education agencies (LEAs) in FY15-16 to constitute a minimum level of funding and requires any LEA on BEP stability funding in FY15-16 to have its minimum funding level adjusted to reflect decreases in student enrollment in the 2014-2015 academic year;
- Requires the minimum level of BEP funding to be adjusted to reflect decreases in enrollment annually, beginning in FY17-18;
- Raises the BEP teacher salary unit cost from \$42,065 to \$44,430;
- Requires the BEP's cost differential factor to be funded at 25 percent in FY16-17 and phased out completely in subsequent fiscal years;
- Requires the BEP's funding for medical insurance to be funded for 12 months;
- Condenses BEP calculations relative to special education options and caseloads from 10 categories to four categories;
- Decreases the ratio for English language learner (ELL) students to teachers and translators and provides a phase-in period for this funding;
- Codifies the use of two fiscal capacity measures at 50 percent, respectively, that shall be used to determine local ability to raise revenue for education; and
- Doubles the funding for the BEP technology component.

Amendment 014668 removes Hamilton County from the provision in Section 3(B)(ii) of Amendment 011771 that authorizes LEAs to use BEP funding appropriated for instructional salaries and wages to also be expended on instructional benefits if an LEA's average licensed teacher salary exceeds the statewide average.

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FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Increase State Expenditures - \$223,065,000/BEP/FY16-17

**Exceeds \$223,065,000/BEP/FY17-18 and Subsequent
Years**

Increase Local Expenditures - \$1,664,800/BEP Local Match/FY16-17

**Exceeds \$1,664,800/BEP Local Match/FY17-18 and
Subsequent Years**

**Funding in the amount of \$223,065,000 is included in the Governor's proposed
FY16-17 budget (B84-B85) for this bill, as amended.**

Assumptions relative to Amendment 01171:

- Tennessee's funding for kindergarten through twelve (K-12) is based on the BEP funding formula.
- The formula consists of multiple components and calculations and is reviewed annually by the state's BEP Review Committee which is attached administratively to the State Board of Education.
- The BEP formula is administered by staff at the Department of Education (DOE).
- The DOE has provided a detailed breakout of the changes to the BEP formula for the bill as amended.
- Raising the BEP salary unit cost from \$42,065 to \$44,430 will increase recurring state BEP expenditures an estimated \$104,600,000. This change will increase the minimum base salary that the BEP funding formula will fund.
- Growth in average daily membership and other inflationary increases in unit costs within the formula's components are estimated to increase recurring state BEP expenditures by \$48,800,000.
- Adding a twelfth month of insurance premiums to the BEP formula will result in a recurring increase in state BEP expenditures of approximately \$29,480,000.
- Lowering the BEP funding ratio for ELL students to teachers and translators from 1:30 and 1:300 respectively will result in more such teachers and translators being funded by the BEP funding formula. The bill as amended authorizes a phase-in period for this change; as such the Governor's FY16-17 budget funds this need at 50 percent in FY16-17, resulting in a recurring increase in state BEP expenditures estimated to be \$13,901,000.
- Doubling funding for the BEP technology component will result in a recurring increase in state BEP expenditures estimated to be \$15,000,000.
- Condensing the special education options from 10 to 4 will result in a recurring increase in state BEP expenditures estimated to be \$4,801,000.
- Other changes in the BEP formula for formula adjustments, including an increase in baseline funding and stability funding for some LEAs and related mandatory increases

for other formula components as the result of all of the changes outlined in the legislation will result in a recurring increase in state expenditures of \$6,483,000.

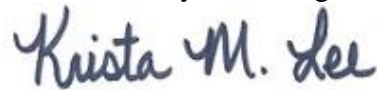
- The total recurring increase in state BEP expenditures is estimated to be \$223,065,000 (\$104,600,000 + \$48,800,000 + \$29,480,000 + \$13,901,000 + \$15,000,000 + \$4,801,000 + \$6,483,000) in FY16-17.
- The BEP funding formula adjusts annually for inflation and other factors; therefore, the recurring increase in state expenditures in FY17-18 and subsequent years is estimated to exceed \$223,065,000.
- Increasing the state's BEP funding will also require an increase in the BEP local match requirement which is the part of each component that LEAs are required to pay annually.
- A majority of local governments are funding their respective LEAs over and above what the BEP funding formula requires.
- Based on information from the DOE's recalculation of the BEP funding formula, though the changes outlined in the bill as amended would raise the BEP local match requirement by \$110,899,000; however, because local governments are currently funding their respective LEAs above the required BEP local match, the effective recurring increase in the local expenditures is estimated to be \$1,664,839 in FY16-17.
- The BEP funding formula adjusts annually for inflation and other factors; therefore, the recurring increase in local expenditures in FY17-18 and subsequent years is estimated to exceed \$1,664,839.

Assumption Relative to Amendment 014668:

- Removing Hamilton County from the aforementioned provision of Amendment 011771 that expands the authorization to use BEP funds appropriated for instructional salaries and wages to instructional benefits will have no impact on the amount of state or local funding that is received by Hamilton County Schools.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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